

ORDER NO. 3404

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Before Commissioners:

Robert G. Taub, Acting Chairman;
Nanci E. Langley, Vice Chairman;
Mark Acton; and
Tony Hammond

Competitive Product Prices
Inbound Parcel Post (at UPU Rates)

Docket No. CP2016-207

ORDER ACKNOWLEDGING CHANGES IN RATES
FOR INBOUND PARCEL POST (AT UPU RATES)

(Issued June 30, 2016)

I. INTRODUCTION

The Postal Service proposes a change in rates not of general applicability for Inbound Parcel Post (at Universal Postal Union (UPU) rates), effective July 1, 2016.¹ The Commission analyzes the proposed rates pursuant to 39 U.S.C. § 3633(a) and the Postal Service's progress towards improving cost coverage for this product.

¹ Notice of the United States Postal Service of Filing Changes in Rates Not of General Applicability for Inbound Parcel Post (at UPU Rates) and Application for Non-Public Treatment, June 14, 2016, at 1-2 (Notice).

II. BACKGROUND

Inbound Parcel Post (at UPU rates). At the time it established separate product lists for market dominant and competitive products in 2007, the Commission assigned Inbound Air Parcel Post to the competitive product list.² During 2009, Air Parcel Post was bifurcated.³ In Order No. 362, the existing product, Inbound Air Parcel Post, was renamed Inbound Air Parcel Post (at non-UPU rates). *Id.* at 8-9. In that same Order, the Commission approved the addition of a new product, Inbound Air Parcel Post (at UPU rates), to the competitive product list. *Id.* An initial review of the new product's rates indicated compliance with statutory requirements. *Id.* On June 26, 2014, the Commission accepted proposed price changes for Inbound Air Parcel Post (at UPU rates).⁴

On August 19, 2014, the Commission approved the Postal Service's request to: (1) transfer Inbound Surface Parcel Post (at UPU rates) from the market dominant product list to the competitive product list; (2) to merge the transferred product with Inbound Air Parcel Post (at UPU rates); and (3) to identify the merged product as Inbound Parcel Post (at UPU rates).⁵ An initial rate review indicated compliance with statutory requirements. *Id.* at 7.

² Docket No. RM2007-1, Order No. 43, Order Establishing Ratemaking Regulations for Market Dominant and Competitive Products, October 29, 2007, at 100.

³ Docket Nos. MC2010-11 and CP2010-11, Order Adding Inbound Air Parcel Post at UPU Rates to Competitive Product List, December 15, 2009 (Order No. 362).

⁴ Docket No. CP2014-52, Order Accepting Price Changes for Inbound Air Parcel Post (at UPU Rates), June 26, 2014, at 5 (Order No. 2102). In Order No. 2102, the Commission also directed the Postal Service to provide, in future filings, a citation to where the applicable inward land rates can be located in the relevant UPU International Bureau (IB) Circular and to provide a copy of that circular. Order No. 2102 at 5. In addition, the Commission directed the Postal Service to provide an update, as part of each filing, of information and data that had been provided in the Management Analysis that had accompanied the prices proposed for Inbound Air Parcel Post (at UPU rates). *Id.* at 5-6. The Postal Service's Notice in the instant proceeding provides the information that Order No. 2102 directed the Postal Service to file. Notice at 3-4; *Id.* Attachment 3.

⁵ Docket No. MC2014-28, Order Approving Product List Transfer, August 19, 2014, at 8 (Order No. 2160).

As part of Order No. 2160, Inbound Air Parcel Post (at UPU rates) and Inbound Surface Parcel Post (at UPU rates) were merged into a single product identified as Inbound Parcel Post (at UPU rates). *Id.*

On December 16, 2015, the Postal Service filed notice of a proposed change in rates for Inbound Parcel Post (at UPU rates) effective January 1, 2016.⁶ The Commission determined that the proposed rates were acceptable on December 29, 2015.⁷

Initial Commission action. In Order No. 3369, the Commission provided public notice of the Postal Service's filing; established the instant docket for consideration of the filing's consistency with applicable statutory policies and Commission regulations; appointed a Public Representative; and provided an opportunity to comment.⁸

III. THE POSTAL SERVICE RATE PROPOSAL IN THE INSTANT PROCEEDING

The Postal Service filed separately under seal with the Commission the rates and supporting documents purporting to establish compliance with 39 U.S.C. § 3633(a)(2) and 39 C.F.R. § 3015.5. See Notice at 2. The Postal Service's Application for Non-Public Treatment of those materials is included in the Notice as Attachment 1. A redacted copy of Governors' Decision No. 14-04 establishing the rates and the classification for Inbound Parcel Post (at UPU rates) is included as Attachment 2. A redacted version of the Universal Postal Union IB Circular 49, dated April 4, 2016, which sets the new rates, is included as Attachment 3. The certified statement required by 39 C.F.R. § 3015.5(c)(2) is included as Attachment 4. Redacted excerpts of Postal Service data transmitted to the UPU to justify bonus payments are included as Attachment 5.

⁶ Docket No. CP2016-56, Notice of the United States Postal Service of Filing Changes in Rates Not of General Applicability for Inbound Parcel Post (at UPU Rates) and Application for Non-Public Treatment, December 16, 2015.

⁷ Docket No. CP2016-56, Order No. 2948, Order Accepting Changes in Rates for Inbound Parcel Post (at UPU Rates), December 29, 2015.

⁸ Notice and Order Concerning Changes in Rates for Inbound Parcel Post (at UPU Rates), June 15, 2016 (Order No. 3369).

The Postal Service states that prices were established by the terms of the Decision of the Governors of the United States Postal Service on the Establishment of Prices and Classifications for Inbound Air Parcel Post at UPU Rates, issued November 16, 2009 (Governors' Decision No. 09-15), and the Decision of the Governors of the United States Postal Service on Changes in Rates and Classes for Inbound Parcel Post (at UPU Rates), issued June 18, 2014 (Governors' Decision No. 14-04). Notice, Attachment 4. The Postal Service asserts that Inbound Air Parcel Post (at UPU rates) should cover attributable costs and preclude the subsidization of competitive products by market dominant products. However, Inbound Surface Parcel Post (at UPU rates) does not cover costs. Furthermore, the combined product does not cover costs. *Id.*

The Postal Service asserts that international competitive mail accounts for a relatively small percentage of the total contribution by all competitive products. Notice at 4. Given the small discrepancy, and size of Inbound Surface Parcel Post (at UPU rates), the overall product should not impair the ability of competitive products as a whole to cover an appropriate share of institutional costs. Regardless, the Postal Service explains that it cannot change UPU rates unilaterally and is constrained in its ability to compel foreign postal operators to pay rates for Inbound Parcel Post higher than the default UPU rates. *Id.*

IV. COMMENTS

The Public Representative filed comments on June 22, 2016.⁹ No other comments were received. Based upon her review of the financial model, the Public Representative states that the inward land rates for the Inbound Parcel Post (at UPU rates) product satisfy the requirements of 39 U.S.C. § 3633(a)(2). PR Comments at 2.

She states that as depicted by the Postal Services cost analysis, the product just falls short of covering costs. *Id.* at 3. However, the Postal Service has included a

⁹ Public Representative Comments on Postal Service Notice Concerning Change in Rates Not of General Applicability for Inbound Parcel Post (at UPU Rates), June 22, 2016 (PR Comments).

sizable contingency in its cost forecast. She estimates that if the contingency were to be reduced, the product would then cover costs. *Id.*

V. COMMISSION ANALYSIS

The Commission reviews price changes for competitive products in terms of the criteria in 39 U.S.C. § 3633(a). These criteria prohibit the subsidization of competitive products by market dominant products (§ 3633(a)(1)); require each competitive product to cover its attributable costs (§ 3633(a)(2)); and require competitive products as a whole to cover an appropriate share of institutional costs (§ 3633(a)(3)).

The Commission has reviewed the Notice, supporting documentation, and the Public Representative's comments in light of the criteria in 39 U.S.C.

§§ 3633(a)(1)-(a)(3). The primary issue, as also recognized by the Postal Service, is that the combined Inbound Parcel Post (at UPU rates) product does not cover its attributable costs.

The Commission previously determined in its FY 2015 Annual Compliance Determination that the Inbound Parcel Post (at UPU rates) product was not in compliance with 39 U.S.C. § 3633(a)(2).¹⁰ For the first time, the Commission noted that during FY 2015 the revenue for this product did not cover cost. See FY 2015 ACD at 86. Further, the Commission required the Postal Service to report on the steps it is taking to improve the net financial position of the Postal Service in relation to this product. *Id.* at 86-87.

On June 27, 2016, the Postal Service provided its report.¹¹ The Postal Service discusses the changes it intends to implement. However, the Postal Service has yet to implement any of the identified changes to improve cost coverage for this product

¹⁰ Docket No. ACR2015, Annual Compliance Determination, March 28, 2016, at 86 (FY 2015 ACD).

¹¹ Docket No. ACR2015, Second Response of the United States Postal Service to Commission Requests for Additional Information in the FY 2015 Annual Compliance Determination, June 27, 2016 (Postal Service Responses to ACD Requests).

beyond the price change proposed in this docket. Postal Service Responses to ACD Requests, question 3.

The Commission also recognizes that the Postal Service's pricing flexibility is constrained by the rates established by the UPU. The Postal Service explains that since the FY 2015 ACD was issued, Inbound Parcel Post (at UPU rates) revenues payable to the Postal Service will increase by 5 percent for the period of July 1, 2016, to December 31, 2016. *Id.* This should have the effect of increasing cost coverage.

The Commission recommends that the Postal Service place emphasis on rapidly implementing the necessary changes to bring this product into compliance. The Commission will continue to evaluate the Postal Service's progress towards improving cost coverage for this product.

VI. ORDERING PARAGRAPHS

It is ordered:

1. The Commission acknowledges the planned rate increase for Inbound Parcel Post (at UPU rates).
2. Consistent with Order No. 2102, the Postal Service is directed to provide, in future filings concerning rates for Inbound Parcel Post (at UPU rates), a citation to the relevant IB Circular (including annex and page number); a copy of the relevant IB Circular; and an update to the inflation-linked adjustment for inward land rates previously submitted.

By the Commission.

Ruth Ann Abrams
Acting Secretary